

189445

STATE OF SOUTH CAROLINA

(Caption of Case)

Joint Application of

PAETEC COMMUNICATIONS, INC.

and

US LEC COMMUNICATIONS OF SOUTH

CAROLINA INC.

For Approval of Intra-corporate Merger, etc.

BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2007 - 364 - C

(Please type or print)

Submitted by: Craig H. Metz, et al.

SC Bar Number: 8134

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NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition

☐ Request for item to be placed on Commission's Agenda expeditiously

☒ Other: Report per Commission Hearing Examiner Directive dated 11/5/07

INDUSTRY (Check one)

NATURE OF ACTION (Check all that apply)

- ☐ Electric  
☐ Electric/Gas  
☐ Electric/Telecommunications  
☐ Electric/Water  
☐ Electric/Water/Telecom.  
☐ Electric/Water/Sewer  
☐ Gas  
☐ Railroad  
☐ Sewer  
☐ Telecommunications  
☐ Transportation  
☐ Water  
☐ Water/Sewer  
☐ Administrative Matter  
☐ Other: \_\_\_\_\_

- ☐ Affidavit  
☐ Agreement  
☐ Answer  
☐ Appellate Review  
☐ Application  
☐ Brief  
☐ Certificate  
☐ Comments  
☐ Complaint  
☐ Consent Order  
☐ Discovery  
☐ Exhibit  
☐ Expedited Consideration  
☐ Interconnection Agreement  
☐ Interconnection Amendment  
☐ Late-Filed Exhibit

- ☐ Letter  
☐ Memorandum  
☐ Motion  
☐ Objection  
☐ Petition  
☐ Petition for Reconsideration  
☐ Petition for Rulemaking  
☐ Petition for Rule to Show Cause  
☐ Petition to Intervene  
☐ Petition to Intervene Out of Time  
☐ Prefiled Testimony  
☐ Promotion  
☐ Proposed Order  
☐ Protest  
☐ Publisher's Affidavit  
☒ Report

- ☐ Request  
☐ Request for Certification  
☐ Request for Investigation  
☐ Resale Agreement  
☐ Resale Amendment  
☐ Reservation Letter  
☐ Response  
☐ Response to Discovery  
☐ Return to Petition  
☐ Stipulation  
☐ Subpoena  
☐ Tariff  
☐ Other: \_\_\_\_\_

Print Form

Reset Form

November 13, 2007

**VIA OVERNIGHT DELIVERY**

Charles Terreni  
Chief Clerk  
South Carolina Public Service Commission  
101 Executive Center Dr.  
Suite 100  
Columbia, SC 29210

RECEIVED  
2007 NOV 14 AM 10:22  
SC PUBLIC SERVICE  
COMMISSION

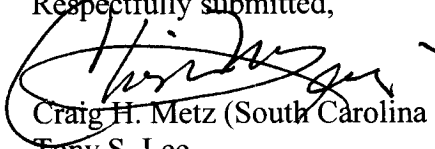
**Re: DOCKET NO. 2007-364-C**  
**Joint Application of PAETEC Communications, Inc., and US LEC of South**  
**Carolina Inc., for Approval of Intra-Corporate Merger, Assignment of**  
**Authorization and Cancellation of US LEC's Authority to Provide**  
**Telecommunications Service**

Dear Mr. Terreni:

On behalf of PAETEC Communications, Inc. ("PAETEC") and US LEC of South Carolina Inc. ("US LEC," collectively with PAETEC, the "Applicants"), transmitted herewith please find the original and ten (10) copies of their Report in accordance with the Commission Hearing Examiner Directive issued on November 5, 2007.

Thank you very much for your attention to this matter. Please date-stamp the extra copy of the Report, and return it to us in the enclosed self-addressed stamped envelope. Should you have any questions with respect to this matter, please do not hesitate to contact Christine McLaughlin at (202) 344-4679.

Respectfully submitted,



Craig H. Metz (South Carolina Bar No. 8134)

Tony S. Lee

Grace R. Chiu

Christine McLaughlin

cc: F. David Butler, Senior Counsel/Hearing Examiner (via overnight delivery, w/ enclosure)  
Nanette S. Edwards, Office of Regulatory Staff (via overnight delivery and e-mail, w/ enclosure)

**BEFORE THE PUBLIC UTILITIES COMMISSION  
FOR THE STATE OF SOUTH CAROLINA**

Joint Application of )  
 )  
**PAETEC COMMUNICATIONS., INC.** )  
 )  
and ) Docket No. 2007-364-C  
 )  
**US LEC OF SOUTH CAROLINA, INC.** )  
 )  
For Approval of Intra-Corporate Merger; )  
Assignment of US LEC's Authority to )  
Provide Telecommunications Service, or )  
In the Alternative, Cancellation of US )  
LEC's Authority to Provide )  
Telecommunications Service, Authority for )  
PAETEC to Provide Resold And Facilities- )  
Based Local Exchange Service And )  
Exchange Access Service )  
\_\_\_\_\_ )

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COMMISSION

**REPORT OF APPLICANTS**

PAETEC Communications, Inc. ("PAETEC"), and US LEC of South Carolina Inc. ("US LEC," collectively with PAETEC, the "Applicants"), pursuant to the Commission Hearing Examiner Directive issued on November 5, 2007 in the above-captioned docket (the "Directive"), hereby submit this report to update the Commission as to the status of the proposed intra-corporate reorganization to be undertaken by the Applicants' parent company, PAETEC Holding Corp. ("PAETEC Holding" or "Parent").

**Background.**

The Applicants' application in the above-captioned docket (the "Application") as initially filed sought the Commission's approval for the merger of US LEC into its sister company PAETEC, following which PAETEC would be the surviving

corporation. The Application also sought the assignment to PAETEC of US LEC's authority to provide local exchange and exchange access services, or alternatively, the grant to PAETEC of authority to provide local exchange and exchange access services and cancellation of US LEC's authority to provide those services. Parent subsequently determined that it would be preferable to complete its intra-corporate reorganization in a different manner than originally proposed. By letter of November 2, 2007, the Applicants requested that the deadlines in this docket (in particular, the November 5, 2007 deadline for direct testimony) be held in abeyance. That request was

**Update Regarding the Proposed Transaction.**

Pursuant to the Directive, the Applicants hereby advise the Commission that it is currently contemplated that the intra-corporate restructuring will be completed in a two-step process.

In the first step ("Step 1") US LEC will be converted to an LLC and made a wholly-owned subsidiary of its now-sister company PAETEC. There will be *no* migration of customers at Step 1; US LEC will continue to provide telecommunications services to all of its customers. The only change will be that US LEC will be a wholly-owned subsidiary of PAETEC, rather than a wholly commonly-owned sister company. Step 1 is anticipated to close on or about January 1, 2008.

In the second step ("Phase 2"), US LEC's current customer base will be assigned to PAETEC, possibly with other assets. It is contemplated that US LEC retain its authority to provide telecommunications services (in particular, exchange access services) and will continue to operate as a connecting carrier or "carrier's carrier." The Applicants plan to close Step 2 in the first or second quarter of 2008, subject to all

necessary regulatory approvals. Because closing of the portion of the transaction involving the provision of services to customers by a “new” entity is no longer contemplated to occur on January 1, 2008, the Applicants respectfully submit that, if any hearing is required for this intra-corporate transaction, that hearing may be delayed beyond the currently scheduled date of December 17, 2007.

The Applicants estimate that they will be able to file the amendment within thirty (30) days of this filing (*i.e.*, by Friday, December 14, 2007) and that they will be able to file their pre-filed direct testimony concurrently with the amendment.

The Applicants also respectfully submit that, since the differences between the transaction as originally proposed and the transaction as currently proposed involve only revisions to the internal corporate structure of Parent and its subsidiaries, there should be no need to re-publish notice of the proposed internal reorganization. The ultimate impact on end-users will be the same – *i.e.*, unless an individual customer chooses to change carriers in the ordinary course, all end-user customers will be transitioned to PAETEC, which will still be wholly-owned by the same Parent that ultimately owns and controls US LEC. The Applicants are in a position to meet the original November 15, 2007 deadline for the filing of the affidavits of publication in this matter, and those affidavits will be sent to the Commission by overnight delivery for receipt on November 15<sup>th</sup> unless the Commission otherwise directs.

Should the Commission have any questions regarding this Report or the Application, kindly contact Christine McLaughlin at (202) 344-4679.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Craig H. Metz', with a large, sweeping initial 'C'.

Craig H. Metz (South Carolina Bar No. 8134)

Tony S. Lee

Grace R. Chiu

Christine McLaughlin

Counsel to PAETEC Communications, Inc., and  
US LEC Communications Inc.